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THE JAPANESE TOURISM INDUSTRY

SUMMARY

Normally, debate on U.S.-Japan trade issues has focused on specific manufacturing industries such as automobiles, consumer electronics and computers. Only recently has attention begun to be paid to trade in services, as the increased level of activity in this category has grown steadily more significant. As reported in a previous JEI Report on bilateral services trade (November 13, 1981), the United States continues to record a large surplus in the travel account as growing numbers of Japanese journey to this country either on business or holiday vacations. This paper will examine the scope of Japanese interest in travel to the United States and describe some characteristics of the market for tourism.

Trends in International Travel

Behind the fast-growing tourism trade in Japan lies a strong combination of rising standards of living, more relaxed corporate vacation policies and attractive and affordable group travel tours. Part of the surge stems from a 1978 change in policy regulating foreign-currency purchases. In that year, the Japanese government liberalized the purchase of foreign currency and raised to ¥3 million ($11,000 at current exchange rates) the currency travelers could take out of the country. The number of Japanese tourists has continued to rise from slightly more than 160,000 in the 60s — when it was still considered a luxury — to more than four million in 1981.[1] Table 1 shows Japanese overseas travel by country. To date, the largest groups of travelers are bound for Asian countries; however the United States is the first overseas choice for the largest number of Japanese tourists.

Last year, 83 percent of all overseas travelers were vacation-bound; 14 percent went abroad on business. Most were male — 70 percent, or 2.8 million — but the number of women traveling has mushroomed in the last ten years, and young women in their twenties accounted for more than 40 percent of this number. Among men, the largest group was between 30 and 40 years old. Men and women over 60 are vacationing internationally more frequently, and this group's share of the market showed a more-than 10-percent increase in 1981. The high travel seasons are generally March (graduation), August (summer vacation) and October-November (wedding and honeymoon seasons in Japan). An average trip is about nine days and the most frequent destinations are Taiwan, South Korea, Hong Kong and Hawaii. Last year, 135,000 younger travelers (15-24 years old) went abroad, a 30-percent jump from the previous year. Short-term vacation travel accounted for 96 percent of this group, but about 6,000 were heading

abroad for education. Among this age group, the majority participated in various foreign-exchange programs sponsored by the government or organizations such as the Rotary Club. One such exchange offers students from Japan and Australia a "Working Holiday" program with special visas and work permits so that youths 18-25 years old can support themselves while traveling.

Foreign tourists are also visiting Japan in growing numbers — 1.6 million arrived in 1981. By region, the largest group last year came from Asia (770,000 or 49 percent of the total), a 27-percent jump from the previous year (Table 2). Most of them were from Taiwan (which liberalized tourist visas in 1979, causing a dramatic increase in the number of travelers to Japan), and the ASEAN nations (Indonesia, Thailand, Malaysia, Singapore and the Philippines). North America accounted for 26 percent of the total, and Europe 8 percent. In the last 10 years there has been a contraction in the number of tourists from North America and a rise in visitors from Asia, although Americans were still the largest group last year at 350,000, an 11-percent increase from 1980. Taiwan ranked second (a 28-percent jump), followed by South Korea (38-percent higher) and the United Kingdom.

Japanese Tourists to the United States

Of the more-than 1 million Japanese tourists to visit the United States last year[2], most did not come to the U.S. Mainland. Two-thirds stayed in Hawaii and another 225,000 went to Guam/Saipan. There is strong interest in West Coast destinations, particularly Los Angeles and San Francisco, but the East Coast, except for New York, is still a minor destination, and few Japanese visit the Midwest or the South.

Due to language problems and unfamiliarity with the sites, most first-time travelers choose group tours arranged by travel agencies. The Hawaii/Guam/Saipan programs are popular, close and affordable. There has been heavy direct investment in Hawaii by Japanese businesses in hotels, restaurants, shops and other services for Japanese tourists. All group tours are accompanied by Japanese-speaking escorts from Japan or local staff. Many travelers have been on a prior trip to the islands and are returning with their families. Particularly if a tourist's hobby is skuba diving or surfing, the warm-weather facilities are likely to be an important consideration.

Group tour programs are offered to suit a wide range of travelers. For example, Japan Airline's "JALPAK" tours feature 28 trips to Hawaii, 47 to the West Coast (mostly Los Angeles and San Francisco), seven to the East Coast and three excursions that cover a number of cities in the United States and Canada. Other major travel agencies such as the Japan Travel Bureau (JTB) and Kintetsu International Express also offer similar programs, strategically marketed to meet the needs of honeymooners, families, students and retired groups. Journeys are designed to concentrate on sightseeing or leisure activities, such as swimming, diving and sailing, but there are also thematic trips for travel parties interested in, for example, history, which include New York, Boston, Washington, Newport News, Williamsburg and Philadelphia. Popular additions to the East Coast tours are the Bahamas and Mexico. On the West Coast, most tours include Disneyland and Las Vegas.

The Japanese Tour Industry in the United States

Almost all Japanese tours are handled by travel agencies in Japan and their branch offices in the United States. These groups tend to give Americans the impression that they use only Japanese airlines, stay at Japanese-owned hotels, shop at Japanese-run shops and eat at Japanese restaurants. As a result, there have been complaints that

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Japanese travel agencies monopolize this trade. One West Coast firm, Dolphin Tours, charged a Japanese firm, the Pacifico-Creative Co., of unfair business practices in a suit filed with the California Public Utilities Commission. The PUC found the case out of its jurisdiction, but the case is awaiting the California Supreme Court's decision. At present, there are five similar charges filed by American tour companies against Japanese-managed agencies in California. An investigation of the trade practices of travel agencies by Hawaii's International Services Agency, on the other hand, concluded recently that charges of foreign companies monopolizing the tourist business are unwarranted.[3] In one case study concerning the Japan Travel Bureau, which handles 20 percent of all Japanese tourists to Hawaii, the study found high usage of Pan American Airlines, Northwest Airlines and Korean Airlines. Of nine hotels used by the JTB, four are American-owned and managed, five are owned by Japanese but managed by Americans and only one is totally Japanese owned and managed. The four bus companies used by the firm are locally owned. As for the pattern of hotel use, the survey found no concentration of Japanese tourists at Japanese-owned facilities.

Even Japanese-owned tour offices and travel facilities in Hawaii generate considerable local employment, income and reinvested profits. The latest data available (for 1976) show that tourism was the largest single sector for Japanese investment in Hawaii, with 235 firms recording a total of $252 million in gross income. More than 9,000 persons were employed by these concerns, whose annual payrolls accounted for $77 million. More than 20 percent of this sum ($249 million) was attributable to investments in hotels, which currently employ a workforce of about 4,600 — almost all residents of Hawaii.

Efforts by American travel agents to handle more Japanese tourists are hampered by the fact that they do not have branch offices in Japan. To compete with Japanese agencies, U.S. firms would have to be willing to make a substantial capital investment and build up a long-term relationship with Japanese clients. Competition is fierce. There are more than 460 agencies in Japan that handle overseas trips. One of the largest, JTB, has a staff of 10,000. On the other hand, particularly on the West Coast, many American hotels cater to Japanese tourists and have worked out arrangements with Japanese travel agencies to provide accommodations and related services to group tours. Hawaii is itself actively promoting business through the Hawaii Visitors' Bureau, organizing trips by Japanese travel agents and offering incentives to lure business conventions to the state.

Structure of the Tour Industry in Japan

Three major travel agencies (Japan Travel Bureau, Travel Development Corp. (Japan Airlines-affiliated) and Kintetsu International Express) and numerous smaller firms compete in the outbound travel market. Large agencies rely on a national network of branches from northern Hokkaido to tropical Okinawa to attract potential clients. Group travel is a vital part of the marketing effort, and sales of package tours have the largest share of the travel business. Either tours are formed by groups who choose an agent to design a specific trip or the agent puts together a package and sells it. The former case includes groups of personal friends, business colleagues, members of agricultural cooperatives and companies whose employees are traveling for specific purposes, such as business conventions. In the second, more competitive category are the trips which have been marketed by the agent, carrying an attractive price, destination, schedule and theme. Competent escorts who are fluent translators and can anticipate client needs are, of course, vital to the reputation and credibility of the travel agencies.

Since travel agencies have to target unidentified, diverse types of clients, their most vital tool is extensive market research, ranging from general economic conditions

to changing lifestyles, seasonal and cultural events (both in Japan and abroad). Each season's strategy reflects new patterns of social change. For example, there has been a gradual shift from completely scheduled group tours to more relaxed alternatives to suit the growing sophistication of Japanese who do not want to travel entirely on their own but would like more freedom to wander off the beaten track. The latest of these tours lets travelers arrange their own hotels and sightseeing and offers only the air flights and information on selected accommodations.

Travel agencies train their staff carefully for this lucrative business. Most Japanese tourists who visit the U.S. Mainland are well-educated and reasonably affluent and their taste in hotels and meals is above average. Group tours always stay at first-class hotels and meals are carefully chosen for variety and cuisine. Shopping is also important, and Japanese tourists on a shopping spree are noticeable in London, Paris and Rome, where their eagerness to buy the most expensive goods draws both criticism and attention. In Paris, the major couturiers and perfumeries now have Japanese-speaking sales clerks.

All Japanese travel agents emphasize the importance of minute attention to the travelers' needs. Unlike American and European tourists, who prefer to be on their own, Japanese tourists demand constant attention and a degree of service which would baffle American agents. This profoundly cultural expectation has convinced Japanese travel agencies that only they can satisfy Japanese clients.

Characteristics of Japanese Tourists

The rapid growth of package tours in the last 15 years created an influx of tourists who had not previously traveled overseas. To ease any culture shock and court a favorable response from these new consumers, some hotels in Hawaii and on the West Coast have installed Japanese-language explanations and hired Japanese-speaking house staff. A more serious problem in this context has been the sharp criticism from Thailand, Taiwan and South Korea that Japanese male tourists too visibly pursue sexual pleasures. This image problem has fueled wide media coverage and has been accompanied by Japanese government warnings to travel agencies that cater to these groups. The dilemma of Asian countries with developing economies, however, is that they rely heavily on revenues from foreign tourists and any decline in numbers is a blow. In order to balance the situation, major travel agencies try to offer attractive Asian tour programs for families, women and students.

The image of rich Japanese tourists, which seems to be pervasive, has led to an alarming increase in the proportion of crimes committed against Japanese travelers. Robberies, muggings and murders have been reported. There can be no doubt that their habit of carrying large amounts of cash and expensive cameras has made them conspicuous targets. The idea of security is little understood in Japan, which has a very low crime rate. Even when they are victimized, tourists are reluctant to pursue the issue in a foreign country. Some improvement may be expected if information about personal safety is available in particular cities to sensitize Japanese visitors. A recently published guidebook on restaurants, for example, explains in detail whether the cities are safe and what precautions are needed.

As more travel agencies have entered the overseas tour business, an increasing number of complaints about misrepresentation of services have surfaced. The government has now introduced more control over the agencies' activities, including spot inspection, monitors and seminars for agency representatives and attendants.

Business and Tourism

Japan's global balance in international leisure travel (excluding transportation) continues to record a large deficit, rising from $1 billion in 1977 to $2 billion in 1981 as shown in Table 3. These figures have kept pace with the rising deficit in the overall international travel account and services trade as a whole. Bilaterally, too, Japan runs a deficit in services trade with the United States. As shown in Table 4,* Japanese tourist spending in the United States has increased from $410 million in 1975 to $699 million in 1979.

The continued increase in the number of Japanese tourists going abroad has stimulated Japanese investment in overseas tourist facilities, particularly hotels. Between 1972 and 1973, Japanese investors purchased eight hotels in Hawaii. In 1974, all the Sheraton hotels in Waikiki and the Sheraton Maui were purchased by a Japanese firm. Interest in real estate in Hawaii has expanded steadily, as Japanese developers have begun to build condominiums, apartments, golf courses and shopping centers. Japan Airlines also owns five hotels and has an interest in more than ten others.

On balance, enthusiasm for overseas travel is likely to expand as popular attitudes toward vacations rapidly approach American/European views. Japan's postwar generation is accustomed to an affluent lifestyle and has been greatly influenced by media coverage of foreign countries. The marketing of enticing overseas resorts and cities has triggered a growing awareness of the potential for foreign travel among college students and office workers. Although group tours will continue to appeal to the mainstream travelers, agencies are beginning to diversify their programs to provide more free time. Increasingly, more individuals will take advantage of the cheaper air fares offered by group tours but will travel independently, particularly as the younger generation improves its language skills. The United States is the country most of these travelers want to visit, and as they become more sophisticated, their horizons will expand beyond the traditional West Coast sites. This development will create a greater need for the American market to respond with incentives to accommodate these Japanese tourists.

Footnotes

[1]White Paper on Tourism, Office of the Prime Minister (Tokyo, 1982).

[2]See: Japan, United States Department of Commerce (Washington, D.C., 1978).

[3]Foreign Investment in Hawaii, Hawaii International Services Agency, Department of Planning and Economic Development, 1979.

[4]The White Paper on Tourism lists 466 agencies that handle both domestic and overseas trips, 4,813 agencies for domestic trips, and 6,761 branch offices.

For further information, contact Fumiko Mori.

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* Table 4 is omitted.

Table 1

Destination of Japanese Tourists by Country

Country	1979 Number	1979 Percent Change	1980 Number	1980 Percent Change	1981 Number	1981 Percent Change
South Korea	649,707	-3%	468,415	-8%	506,819	8%
Taiwan	693,671	11	654,413	-6	592,682	-9
Hong Kong	501,034	4	465,987	-7	501,766	8
Philippines	253,717	8	262,785	4	193,146	-27
Macao	225,882	4	201,608	-11	172,383	-14
Singapore	260,988	19	298,593	14	364,213	22
Thailand	200,333	3	225,433	13	214,628	-5
Malaysia	102,673	-13	113,486	11	129,586	14
United States	1,089,000	23	1,125,000	3	1,165,000	4
Hawaii	577,491	25	568,190	-2	592,000	n.a.*
Guam	190,810	18	221,910	16	225,130	15
Canada	158,582	24	162,253	2	146,661	-10
France	422,000	17	400,000	-5	n.a.	n.a.
Italy	259,860	20	228,229	-12	n.a.	n.a.
West Germany	302,787	20	289,189	-4	n.a.	n.a.
United Kingdom	220,400	9	185,300	-16	200,300	8
Switzerland	230,110	16	216,197	-6	226,869	5
Spain	70,995	1	88,035	24	86,731	-1
Total	4,038,298	15	3,909,333	-3	4,006,388	2

*Statistical method changed.

Source: Ministry of Transportation

Table 2

Foreign Visitors to Japan

	1979			1980			1981		
	Number	Percent Share	Percent Change	Number	Percent Share	Percent Change	Number	Percent Share	Percent Change
North America									
United States	301,926	27.1%	-4%	319,017	24.2%	6%	353,151	22.3%	11%
Canada	34,476	3.1	0	41,045	3.1	19	44,869	2.8	9
Mexico	8,121	0.7	-14	12,136	0.9	49	15,911	1.0	31
Subtotal	348,190	31.3	96	376,753	28.6	8	418,708	26.4	11
South America									
Subtotal	25,129	2.3	6	29,371	2.2	17	31,849	2.0	8
Europe									
United Kingdom	72,100	6.5	10	90,867	6.9	26	121,525	7.7	34
West Germany	38,216	3.4	7	39,661	3.0	4	40,888	2.6	3
France	22,230	2.0	-4	25,860	2.0	16	27,624	1.7	7
Subtotal	219,294	19.7	0	255,199	19.4	16	297,927	18.8	17
Africa									
Subtotal	9,351	0.8	-8	12,169	0.9	30	15,305	1.0	26
Asia									
China	12,195	1.1	69	21,220	1.6	74	18,142	1.1	-15
Taiwan	187,931	16.9	64	261,851	19.9	39	334,381	21.1	28
Hong Kong	27,203	2.4	0	34,959	2.6	29	49,591	3.1	42
China*	731	0.1	-37	1,205	0.1	65	1,132	0.1	-6
South Korea	103,207	9.3	9	109,136	8.3	6	150,335	9.5	38
Philippines	40,204	3.6	20	42,934	3.3	7	52,399	3.3	22
Thailand	19,711	1.8	1	21,274	1.6	8	28,275	1.8	33
India	16,917	1.5	7	23,728	1.8	40	24,161	1.5	2
Indonesia	16,486	1.5	-8	22,434	1.7	36	30,740	1.9	37
Malaysia	14,880	1.3	16	20,327	1.5	37	29,099	1.8	43
Singapore	12,932	1.2	10	18,368	1.4	42	25,415	1.6	38
Other	26,033	2.3	-5	29,891	2.3	15	29,756	1.9	0
Subtotal	478,430	43.0	24	607,327	46.1	27	773,426	48.9	27
Oceania									
Australia	25,376	2.2	-25	27,530	2.1	9	33,559	2.1	22
Subtotal	30,251	2.7	-22	33,678	2.6	11	43,307	2.7	29
Other									
Subtotal	1,961	0.2	7	2,135	0.2	9	2,521	0.2	18
Grand Total	1,112,606	100.0	7	1,316,632	100.0	18	1,583,034	100.0	20

*Includes Chinese nationals whose passports were issued by Singapore, Malaysia and other countries.

Source: Ministries of Justice and Transportation

Table 3

Travel in Japan's Balance of Payments

(in billions of dollars)

	1977	1978	1979	1980	1981
Total Travel					
Receipts	$0.4	$0.5	$0.6	$0.6	$0.7
Payments	2.2	3.7	4.8	4.6	4.6
Balance	-1.8	-3.2	-4.2	-4.0	-3.9
Travel for Pleasure					
Receipts	0.3	0.3	0.3	0.4	0.5
Payments	1.3	2.3	2.9	2.6	2.6
Balance	-1.0	-1.9	-2.6	-2.2	-2.1
Services Account Balance	-6.0	-7.4	-9.4	-11.3	-13.6

Source: Bank of Japan, Balance of Payments Monthly